

BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting (Proposal Two) : Docket No. RM2018-5

COMMENTS OF UNITED PARCEL SERVICE, INC. ON NOTICE
OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL TWO)
(July 26, 2018)

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United Parcel Service, Inc. (“UPS”) respectfully submits these comments in response to the Postal Regulatory Commission’s Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (June 1, 2018) (“Order No. 4630”). The deadline for these comments was extended to July 26, 2018 pursuant to the Commission’s Order No. 4700.¹

INTRODUCTION

This docket involves the Postal Service’s Proposal Two, which seeks to change the In-Office Cost System (“IOCS”) design for city carriers to a “cluster sampling approach that uses census data from [the Time and Attendance Collection System (“TACS”)] to weight sampling data.”²

UPS generally supports the adoption of Proposal Two, because it appears to improve the efficiency of data collection and the accuracy of cost attribution. But although UPS is generally supportive of Proposal Two, UPS notes that its analysis of Proposal Two is necessarily incomplete because of (1) the limitations of TACS data, and (2) the opacity of the Negotiated Service Agreements (“NSA”) adjustment.

Proposal Two is designed to replace the current IOCS sampling approach (which relies heavily on less-accurate telephone readings) with a cluster sampling approach (which relies heavily on more-accurate on-site data collection).³

¹ See Order Granting Motion to Adjust Procedural Schedule, Dkt. No. RM2018-5 (July 9, 2018), at 1.

² Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes to Analytical Principals (Proposal Two) (“Petition”), Dkt No. RM2018-5 (May 25, 2018), at 4.

³ Under the current methodology, which the Postal Service refers to as “non-cluster IOCS” (see, *e.g.*, Petition at 8), the probability that a given carrier in a given stratum being sampled is independent from that of other carriers. In contrast, a cluster sampling approach divides a

The Postal Service proposes to extend its use of TACS and Delivery Operations Information System (“DOIS”) datasets to derive the “weights” for various offices and times of day.⁴ This is an extension of Proposal Five (Dkt. No. RM2017-9), where the Postal Service proposed to use TACS clock ring workhours to determine the shares of accrued city carrier costs incurred by each of the two route groups, letter routes and Special Purpose Routes (“SPRs”).⁵

According to the Postal Service, it is more difficult to find data collectors who are able to successfully collect data on Sundays, as scheduled readings for carriers are cancelled five times more often on Sundays than on other days.⁶ The Postal Service thus proposes that in lieu of conducting sampling tests on Sundays and holidays, TACS hours should be used to estimate a proxy for total in-office city carrier costs for Sundays and holidays.⁷ Proposal Two would then, for the time being, attribute 100% of these Sunday and holiday costs to Parcel Select since “the vast majority” of products delivered on Sundays and holidays are Parcel Select.⁸ At some unspecified point in the future, the Postal Service expects to propose an alternate attribution method for these Sunday costs that would rely on Product Tracking and Reporting (“PTR”) data.⁹

population (or here, a stratum) into groups (*i.e.*, clusters), selecting a random sample *of the groups*, and then sampling the elements in each cluster.

⁴ *Id.* at 21.

⁵ *Id.* at 1-2.

⁶ See Responses of the United States Postal Service to Questions 1-8 of Chairman’s Information Request No. 2 (“Responses to CHIR 2”), Dkt. No. RM2018-5 (July 5, 2018), at Q6.

⁷ Petition at 5.

⁸ *Id.* at 9. The Postal Service subsequently confirmed that non-parcel delivery on Sunday is “very small.” See Responses of the United States Postal Service to Questions 1-19 of Chairman’s Information Request No. 1, Dkt. No. RM2018-5 (June 29, 2018), at Q18.

⁹ Petition at 9.

ARGUMENT

I. PROPOSAL TWO REPRESENTS A STEP FORWARD

A. Proposal Two Will Improve Costing Accuracy

UPS believes that Proposal Two generally represents a step forward. The current sampling approach relies on data collection readings that are widely dispersed geographically and across time. This makes it costly to have data collectors travel to do these readings. As a result, about 85% of carrier readings (over 200,000 in FY2017) were performed via telephone.¹⁰ In contrast, Proposal Two's cluster sampling approach increases the feasibility of using more onsite data collectors in lieu of reliance on telephone readings.

By implementing this approach, the Postal Service will collect more accurate cost data due to several advantages of in-person data collection over telephone data collection.

For instance, the Office of Inspector General reported that IOCS telephone readings were subject to potential inaccuracies resulting from errors in rescheduling calls (about 12% of telephone readings were rescheduled in FY2016).¹¹ Moreover, onsite data collectors generally enjoy certain advantages over telephone surveyors (e.g., onsite data collectors can scan barcodes, physically recognize less common items, etc.) that help to create a higher-quality data set.¹²

In-person data collection will also be done by personnel that can truly give it the focus this important task deserves. The telephone respondents utilized under the status

¹⁰ *Id.* at 1.

¹¹ Office of Inspector General, *Accuracy of In-Office Cost System Data*, Report No. CP-AR-18-001 (Oct. 18, 2017), at 7.

¹² Petition at 3.

quo methodology are busy with their primary responsibilities, and data collection represents a distraction from these duties.¹³ In contrast, a sampling approach that relies more heavily on on-site readings by dedicated personnel will mean that information will be collected mainly by data collectors whose *primary responsibility* is to collect data. The Postal Service has explained that “on-site data collectors are not as restricted in their time availability as carrier supervisors who have primary duties in addition to their role as telephone respondents.”¹⁴

The new and seemingly more accurate approach to sampling “results in a significant increase in the percentage of direct tallies where the carrier is handling a mailpiece, and decreases in tallies for support and administrative activities (no mailpiece), training and mixed mail,” as summarized in the Postal Service’s Table 3.¹⁵ Specifically, moving from the current (non-cluster) sampling approach to the cluster approach results in a 37 percent increase in Direct (single mailpiece) tallies, implying that on-site data collectors are much more likely than telephone respondents to observe and record instances when carriers are handling a single mailpiece.

As a byproduct of improving costing accuracy, Proposal Two has the laudable effect of increasing the attribution of costs to products. For the two quarters for which the Postal Service has quantified impacts, the Postal Service’s analysis shows that the current (non-cluster) sampling method under-attributes costs, failing to capture more than \$250 million in attributable costs.¹⁶ This includes a \$318 million increase in

¹³ *Id.* at 10.

¹⁴ *Id.* at 13.

¹⁵ *Id.* at 12-13.

¹⁶ USPS-RM2018-5-2\PublicWorkbooks_ChIR1\Prop2.ChIR1.Q8.ClusterImpact.Public.xlsx indicates that total volume variable costs over 2017Q4 and 2018Q1 have increased by \$258

competitive product volume variable costs and a \$75 million *decrease* in domestic market dominant volume variable costs.¹⁷ Much of the impact is due to the current method's under-reporting of the extent to which carriers are handling competitive products during their in-office activity. As Table 1 below shows, the share of In-Office Direct Labor costs for competitive products increases from 10% to 18%.

Table 1: Proposal Two Effects on In-Office Direct Labor (\$ in thousands)

		Non-Cluster		Cluster	
		Cost	Percent	Cost	Percent
Non-Competitive	[1]	\$1,131,595	90%	\$1,225,747	82%
Competitive	[2]	\$123,283	10%	\$261,707	18%
Total	[3]	\$1,254,878	100%	\$1,487,454	100%

Sources and Notes: RM-2018-5/2 Public Workbooks CHIR1, "CS06&7-FY17Q4-CurrentwithProp5.xlsx", "CS06&7-FY17Q4IOCSClusterv2.xlsx," "CS06&7-FY18Q1-CurrentwithProp5.xlsx," "CS06&7-FY18Q1IOCSClusterv2.xlsx," tab "Outputs to CRA" column (1).

Thus, not only have the share of tallies that are Direct (single mailpiece) increased, but the share of these direct tallies that are comprised of competitive products has also increased drastically, providing a strong indication of bias in the existing method.

B. The Postal Service's Findings Have Implications For Other Cost Areas

The Postal Service's finding regarding the negative effects of relying on busy telephone respondents for data collection has implications for the accuracy of data collection and cost attribution in other cost areas. To the extent that other costing

million (with piggybacks). This ultimately overstates the impact, as some of the cost increase will be offset, as described in Responses to CHIR 2 at Q4. The Postal Service's quantification of the change to the NSA adjustment has been provided under seal.

¹⁷ *Id.*

systems rely on responses or data collection from Postal Service personnel that collect data only as a secondary task, other costing systems may have similar biases that have not been fully recognized.¹⁸ Proposal Two seems to imply that burdening busy personnel with data collection duties creates an incentive to record costs less granularly—leading to an overestimation of institutional and market-dominant costs.

Reliance on operational personnel may have particular implications for the accuracy of cost attribution during peak delivery season, especially around November and December each year, when Postal Service staff tends to be busiest. If the experience in this docket is any guide, it appears likely that the Postal Service is overstating institutional costs during peak seasons, leading to an understatement of attributable costs, including attributable competitive product costs.

The substantial changes in cost attribution associated with Proposal Two suggest that all parties should recognize that Postal Service costing procedures, despite the effort and resources devoted to their development, may still have substantial room for improvement. The Commission has previously made strong, unqualified statements that the Postal Service's costing procedures are reliable.¹⁹ That conclusion is undermined, however, by the ongoing need to make fairly radical changes to those

¹⁸ For example, IOCS tally data produced in ACR2017 show that the majority of IOCS tallies for both clerks and supervisors are also conducted by telephone. See USPS-FY17-37 - FY 2017 IOCS Tally Data, Dkt. No. ACR2017 (Dec. 29, 2017), USPS-FY17-37\Data\prcpub17.sas7bdat. Tests in the Rural Carrier Costing System may also be conducted by telephone. See "Carrier Cost Systems Handbook F-55," October 2012, available at <https://www.apwu.org/sites/apwu/files/resource-files/F-55%20Carrier%20Cost%20Systems%2010-12%20%281.28%20MB%29.pdf>. Other potential sources for bias are of course also possible.

¹⁹ See, e.g., Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, Dkt. No. RM2017-1 (Feb. 8, 2018), at 45 ("To the extent that any costs can be attributed to specific competitive products, they are already distributed under the Commission's current costing methodology and are not included in the institutional costs of the Postal Service.").

procedures with significant impacts, like what the Postal Service has proposed in Proposal Two.

II. THE COMMISSION SHOULD ENSURE THE POSTAL SERVICE ACCURATELY REPORTS ITS DATA

A. The Commission Should Ensure That TACS Data is Accurate

Given that Proposal Two relies upon TACS data to calculate IOCS “cluster” weights, the accuracy of the weights derived under Proposal Two depend on the accuracy of TACS clocking behavior. But the Commission has previously expressed concerns about potential inaccuracies in TACS clocking behavior, including whether TACS data is recorded accurately, and whether TACS operation codes are used in a standardized manner.²⁰ The Postal Service has articulated plans to address these concerns through the provision of additional training to workers and supervisors.²¹ However, it remains unclear whether this training has effectively addressed these problems.

Inconsistencies in TACS clocking behavior arise, in part, from inconsistencies in how SPRs are defined and distinguished from regular letter routes. A particular delivery activity may be associated with SPRs, depending upon the circumstances, because of the nature of the activity, the route on which the activity is taking place, the relationship

²⁰ See Order on Analytical Principles Used in Periodic Reporting (Proposal Five), Dkt. No. RM2017-9 (Feb. 6, 2018), at 12-18.

²¹ Responses of the United States Postal Service to Questions 1-15, 19-20, and 23 of Chairman’s Information Request No. 1, Dkt. No. RM2017-9 (Aug. 9, 2017), at 2 (“Since the response to Docket No. ACR2016, ChIR 21 (March 2, 2017), the Postal Service recognized that, in order to properly determine delivery costs, work hours must be assigned to the function and cost pool where the work is actually performed. Thus, the Postal Service has more recently attempted to standardize its procedures for the use of LDCs 23 and 24.”); *id.* at 5 (“Because the Postal Service has *attempted* to standardize the operation numbers used in conjunction with LDCs 23 and 24 . . .”) (emphasis added).

of the letter carrier to the route, the time of day when the activity takes place, or the day of the week on which the activity takes place.²²

Inconsistency and ambiguity surrounding route designations could affect how TACS workhours are charged to activities. For example, the Office of Inspector General has analyzed a sample in which 3% of Sunday hours were incorrectly charged.²³ The OIG report specifically points out that “inappropriately charged workhours could impact the accuracy and reliability of total city carrier labor costs allocated to Sunday delivery cost pools and attributed to products and services.”²⁴ However, these inaccuracies cited in the OIG report are not addressed by Proposal Two, and if left unresolved, inaccuracies in TACS clocking behavior on Sundays will likely have a larger effect on Sunday costs than under the prevailing methodology, given that Proposal Two relies heavily on TACS data instead of IOCS readings to determine Sunday and holiday costs.

Despite the problems discussed above, use of the TACS data is still an improvement over current IOCS sampling methodology, where many Sunday and holiday readings are mistakenly classified as letter routes instead of SPRs due to “an ambiguity in the identification of Sunday routes.”²⁵ The Postal Service reports that Sunday and holiday IOCS readings can incorrectly be recorded under letter routes instead of SPRs due to the data collector entering a code for Sundays and holidays that is also a code for letter routes.²⁶ When this happens, the system does not give an

²² Responses of the United States Postal Service to Questions 1-15, 19-20, and 23 of Chairman’s Information Request No. 1, Dkt. No. RM2017-9 (Aug. 9, 2017), at 21-25.

²³ Office of Inspector General, *Delivery Charge Codes*, Report No. CP-AR-18-002 (Jan. 19, 2018) at 5.

²⁴ *Id.* at 1.

²⁵ Responses to CHIR 2, Dkt. No. RM2018-5 (July 5, 2018), at Q7.

²⁶ *Id.*

opportunity for the data collector to record that the carrier's route is for package delivery only. While the Postal Service argues that only "a few city carrier Sunday and holiday IOCS readings are assigned to the letter route cost group,"²⁷ inspection of the FY2017 IOCS data reveal that 7.4% of all Sunday and Holiday costs are assigned to letter routes.²⁸ While Sunday and holiday TACS data may represent an improvement over IOCS, UPS faces limitations in commenting on the full impact of using TACS data, given the inaccuracies identified by the OIG.²⁹

B. The Commission Should Consider Ways To Disseminate Knowledge of NSA Adjustments

Similarly, UPS believes that its knowledge of Proposal Two's impact is hampered by the opacity of information on NSA adjustments. As such, the Commission should explore steps to ensure that these adjustments can be robustly reviewed by interested parties, subject to appropriate confidentiality protections.

Every year, the Postal Service makes adjustments to the Cost and Revenue Analysis ("CRA") to attribute certain NSA-related costs that would otherwise be classified as institutional costs. But although the ACR2014 comments³⁰ and information provided in this docket indicate that this NSA adjustment is related to costs incurred due to delivery of competitive products on Sundays and holidays,³¹ the NSA adjustment process is not well-documented and remains opaque to outside parties. How this

²⁷ *Id.*

²⁸ See USPS-FY17-37 - FY 2017 IOCS Tally Data, Dkt. No. ACR2017 (Dec. 29, 2017), USPS-FY17-37\Data\prcpub17.sas7bdat.

²⁹ Office of Inspector General, *Delivery Charge Codes*, Report No. CP-AR-18-002 (Jan. 19, 2018) at 1-5.

³⁰ United States Postal Service Reply Comments Regarding FY 2014 Performance Report and FY 2015 Performance Plan, Dkt. No. ACR2014 (Mar. 4, 2015), at 18-19.

³¹ Responses to CHIR 2, Dkt. No. RM2018-5 (July 5, 2018), at 5.

adjustment relates to and/or would be affected by Proposal Two was not addressed in the Postal Service's initial submission. The Postal Service subsequently confirmed in a response to a Chairman's Information Request that Proposal Two would result in a decrease in the magnitude of the NSA adjustment, offsetting part of the impact presented in the Postal Service's initial filing.³² However, it was difficult for interested parties to completely assess the soundness and impact of Proposal Two, given the scarcity of documentation on how these NSA adjustments are calculated, and how they are affected by the changes that adoption of Proposal Two would bring about.

UPS appreciates the Postal Service's interest in preserving the confidentiality of its commercial agreements—an interest that the Commission has strongly protected. Yet data on NSAs remains scarce despite the rapid growth in NSAs over the past ten years as seen below in Table 2, which shows the number of NSA contracts by product grouping as reported in the Annual Compliance Determination Reports for fiscal years 2008 through 2017. A clear increase in NSAs over time indicates that they are responsible for an increasing share of product-related activity. In the past two fiscal years alone, the number of competitive NSA products has tripled (and quadrupled for exclusively domestic competitive products).

³² *Id.* at 6.

Table 2: Growth in NSAs (FY2008 to FY2017)

FY	Competitive NSAs			Domestic Market Dominant NSAs
	Domestic	International	Total	
2008	2	19	21	6
2009	23	41	64	4
2010	13	111	124	3
2011	14	50	64	1
2012	32	23	55	1
2013	112	297	409	2
2014	136	282	418	3
2015	200	269	469	2
2016	568	447	1,015	1
2017	846	730	1,576	1

Source: 2008 – 2017 Annual Compliance Determination Reports.

Given that NSAs account for a growing share of the Postal Service's commercial product activities, the scarcity of NSA data poses a growing barrier to efforts by interested parties to evaluate and comment upon the extent to which competitive product costing procedures comply with applicable regulatory requirements. As such, UPS urges the Commission to explore ways to balance the Postal Service's need for confidentiality with the need of attorneys and consultants working on behalf of other interested parties for access to the information necessary in order for them to effectively evaluate and comment upon the extent to which competitive product costing procedures comply with applicable regulatory requirements. Safeguards can be developed to ensure that the confidentiality of any sensitive information is appropriately protected.

CONCLUSION

For the reasons discussed above, UPS generally considers Proposal Two to be a step in the right direction, based on the information available to it. UPS believes that a more complete evaluation of Proposal Two's impact would only be possible with greater

transparency into the data underlying the Postal Service's petition, particularly with regard to TACS data and NSA adjustments. UPS therefore urges the Commission to reemphasize to the Postal Service the necessity of conducting a full assessment of the impacts of proposals such as this, and to assure that the degree of transparency needed by interested third parties is maintained.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By */s/ Steig D. Olson*

Steig D. Olson
Christopher M. Seck
David LeRay
Andrew Sutton
Quinn Emanuel Urquhart &
Sullivan, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010
(212) 849-7152
steigolson@quinnemanuel.com
christopherseck@quinnemanuel.com
davidleray@quinnemanuel.com
andrewsutton@quinnemanuel.com

Attorneys for UPS